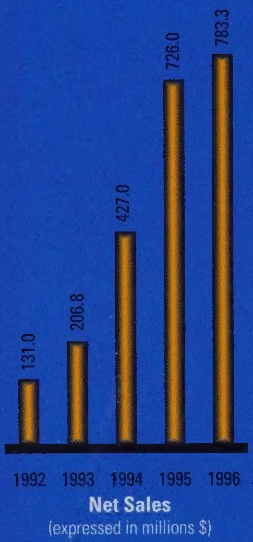
The World of westernstar

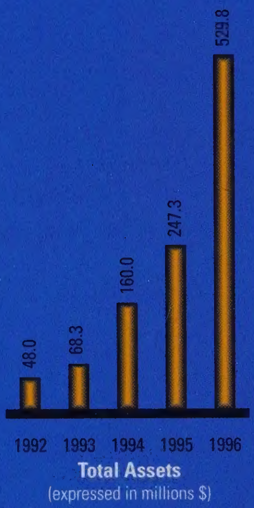
CUSTOM VEHICLES FOR EVERY CORNER OF THE GLOBE

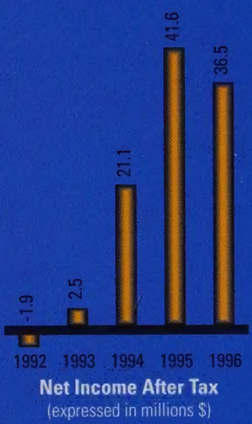
1996 Annual Report

Western Star Trucks Holdings Ltd.

★ **Developing Opportunities for Growth** ★ Stars of the Road: New Constellation Series a Clear Winner ★ Orion Shines as Bus Orders Increase ★ ERF Acquisition Completes Global Circle





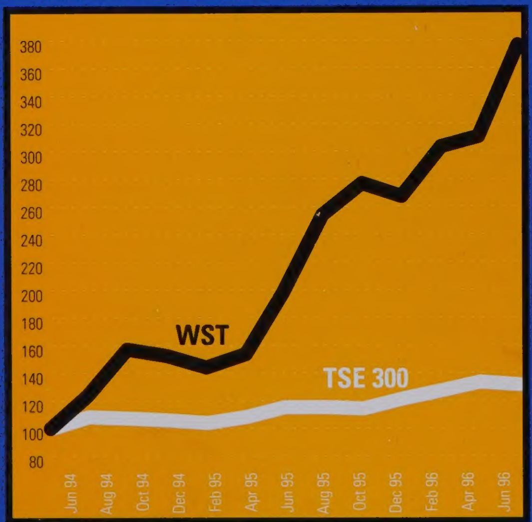


BUSINESS PROFILE

Western Star Trucks Holdings Ltd. is a world leader in the design and assembly of highly-customized automotive vehicles. The company manufactures heavy-duty trucks and light support vehicles for the world market in Kelowna, British Columbia and through its Orion subsidiary builds transit buses for the North American market in Mississauga, Ontario and Oriskany, New York. ERF (Holdings) plc, a subsidiary located in Sandbach, United Kingdom, manufactures a series of heavy commercial vehicles including "cab-over" heavy-duty trucks, buses and coaches. ERF markets its vehicles in the United Kingdom and also into a number of export markets including South Africa, France and Spain. Aftermarket service, providing quality parts to truck and bus customers, makes up the remainder of Western Star's business.

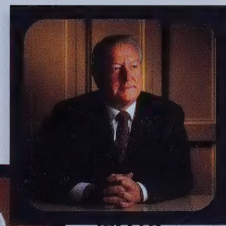
Western Star and its wholly-owned subsidiaries employ 3,068 people. The company's head office is in Kelowna, British Columbia, Canada and its common shares trade on the Toronto, Montreal, Vancouver and American stock exchanges.

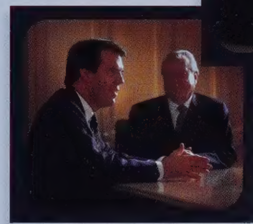
WESTERN STAR'S STOCK PERFORMANCE
June 30, 1994 to June 30, 1996



The world of

westernstar





TWO

PAGE 2
Custom Vehicles for Every Corner of the Globe
THE WESTERN STAR INTERVIEW WITH TERRY PEABODY AND BRAD STAM

FEATURES

SIX

SEVEN

PAGE 6
Developing Opportunities For Growth
A YEAR IN REVIEW WITH WESTERN STAR TRUCKS HOLDINGS LTD.

SPECIAL PURPOSE VEHICLES FOR NICHE MARKETS

PAGE 9
Stars of the Road
CONSTELLATION SERIES A CLEAR WINNER

TAKING IT TO THE STREET - 90-DAY CARAVAN LAUNCHES NEW TRUCK LINE

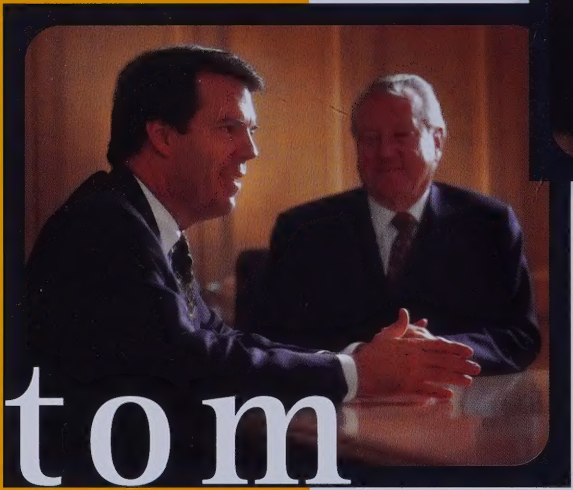
PAGE 10
Orion Shines as Bus Orders Increase
LEADING THE WAY WITH ORION VI: THE ONLY "TRUE LOW-FLOOR" VEHICLE

TEN

THIRTEEN

PAGE 13
ERF
ERF ACQUISITION COMPLETES GLOBAL CIRCLE

PAGE 14 MANAGEMENT'S DISCUSSION & ANALYSIS PAGE 18 AUDITORS' REPORT PAGE 19 MANAGEMENT'S RESPONSIBILITY PAGE 20 FINANCIAL STATEMENTS AND NOTES PAGE 36 BOARD OF DIRECTORS INSIDE BACK COVER CORPORATE INFORMATION



(L-R) BRAD STAM, PRESIDENT WITH TERRY PEABODY, CHAIRMAN & CEO.

Custom Vehicles *for every corner of the globe*

THE WESTERN STAR INTERVIEW WITH TERRY PEABODY AND BRAD STAM

How did Western Star perform in 1996 and what were the major highlights of the year?

Our sales were higher in 1996, but profits were marginally lower than in 1995. In 1996, we focused on investing in the future and laying the foundation for increased future profitability. The takeover of Orion Bus Industries occurred in June, 1995. Since that time we have expanded production from 2 buses per week to 16 buses per week at the end of fiscal 1996. New management has been installed and manufacturing processes have been substantially improved. We are very pleased with the turnaround that has been accomplished at Orion. This effort has however, resulted in increased costs in 1996. In our truck division, we launched our new Constellation Series, the first new cab the company has introduced since 1967. Again, considerable costs were associated with launching the new truck line and achieving efficient production levels. Finally, at the end of fiscal 1996, we acquired ERF (Holdings) plc, widely recognized as manufacturing the best engineered trucks in Europe. This major acquisition has fully launched Western Star into expanding international export markets.

How did the heavy-duty truck market perform in 1996 and what impact did it have on truck sales?

Heavy-duty truck revenue decreased in Canada and increased in the United States in the face of an approximate 12 percent decline in the North American heavy-duty truck market. While the market was still considered healthy, it couldn't match the record levels of 1995. Although large fleet business was down, purchases by owner-operators, which represent Western Star's core market, remained strong. We sell into niche markets, which are not as affected by cycles in the North American heavy-duty truck industry to the same extent as some of our competitors. Our order board is currently strong and our build rate remains high.

You recently launched your new Constellation Series of cabs and sleepers. How strong is demand for the new product?

The launch of the Constellation Series has been extraordinarily successful. Acceptance has been very high and approximately 80 per cent of truck models presently being ordered are of the new product. We ran a very aggressive promotional campaign complete with a caravan that took the new line of products over a 90-day period to 130 dealerships. Our five new Constellation models were exposed to over 75,000 end-users across North America.

You dedicated a great deal of time in the development of the new truck line. How much did you invest and what problems did you face?

Yes, we spent three years researching and developing the product. We took an already durable, reliable, highly customized truck and made major improvements to it. Our dealer network was closely involved in the process to ensure we delivered a truck that met the demands of the marketplace. To date, Western Star has invested $28.0 million in product development, which includes the introduction of a new assembly and manufacturing process. When production started we found that certain engineering refinements had to be made to the product. This, along with the initial learning curve relating to new production processes, limited our capacity, affecting our bottom line to some degree. These problems are being resolved, and we are looking forward to reaping future benefits of strong production and sales.

Has your diversification into the transit bus industry been successful?

The current position of Orion in the transit bus market, and the rewards that are apparent in fiscal 1997, are very gratifying. Orion is among the top three bus manufacturers in North America and our strong order board attests to this. Right now, we have orders for new buses through to the end of fiscal 1998, with a revenue value of approximately $593.5 million. We have received major orders from transit authorities in New York City, Toronto, New Orleans and Washington D.C. These orders have been received at appropriate margins. In addition, most of these contracts have been procured on the basis of progress payments, which are vital to a healthy transit bus industry. Progress payments provide the necessary cash flows to support the significant inventories required for component lead times and work in progress. Our new low-floor bus, the Orion VI will soon be in production. It efficiently accommodates the physically challenged and elderly passengers and demand

ERF'S 8-WHEEL TIPPER

CONSTELLATION SERIES

"In 1996, we focused on investing in the future and laying the foundation for increased future profitability."

for this vehicle is expected to grow. In addition, we are re-engineering and re-powering the ever popular Orion II mini-bus, a vehicle which is also equipped for the physically challenged.

Western Star Finance was introduced in July, 1996. What is the strategy in offering this service?

Western Star Finance is a key opportunity to provide an attractive financial service to our dealer network and their customer base. This will enable us to design finance packages that meet the needs of dealers and customers better than any "off-the-shelf" financing available in the market. The introduction of this financial group will give our dealers a competitive advantage in marketing our products. It will also give our international organization and ERF a depth of financial service not available in the past.

Western Star's shares started to trade on the American Stock Exchange on January 22, 1996. Why did the company seek to list on AMEX?

Participating in U.S. financial markets is in keeping with Western Star's growing role in U.S. vehicle markets. Many American investors have expressed a keen interest in our company. We are pleased that they now have the opportunity to invest in Western Star's shares through a U.S. exchange.

Are you experiencing further demand for your military line of vehicles?

During 1996, we completed a new Canadian order for 64 Light Support (LSVW) trucks. We are continuing to perform a 15-year LSVW parts supply contract worth $30.0 million. In addition to this, we have supplied a number of Class 8 special purpose vehicles to the Canadian military and to Pakistan. Leading into 1997, we will be fulfilling a $10.9 million contract for the supply of 48 special purpose, 6 x 6 vehicles to the Canadian Department of National Defence. We continue to see this division as a major focus of opportunity for Western Star.

Is Western Star sustaining strong sales levels on the international front?

Our international sales continue to make a significant contribution. However, they are down from levels achieved in 1995, which was a record year. We recently appointed a new Vice President of International Sales and have added to our sales group with a focus on strengthening and further expanding our export network. For 1997, we anticipate a substantial increase in total Kelowna built units sold into international markets. Our new ERF subsidiary will further increase our penetration of global markets.

What significance does the acquisition of ERF (Holdings) plc of the United Kingdom have for Western Star?

The purchase of ERF dramatically increases the Western Star group's global presence and product range to the extent where we can now provide one of our transport products to any country in the world. ERF builds a high-quality, reliable and durable product which complements Western Star's existing line of trucks. The prospects of combining the purchasing power of the two companies, and utilizing respective market access to advance each other's prospects, are very exciting. ERF is a very well managed company, with very efficient production capabilities and a most accomplished research and development and engineering group. To signify the importance of this merger, Peter Foden, Chairman of ERF, has joined Western Star's Board

ORION VI LOW-FLOOR TRANSIT BUS

of Directors and John Bryant, Managing Director of ERF, will join our board in November, subject to shareholder approval.

Western Star is a much larger company than it was a year ago. How do you intend to internally manage this growth?

Western Star is committed to growth, but is equally dedicated to effectively managing its existing business. To keep pace with our growth, we have over the last year substantially strengthened our management resources by adding a number of new senior executives and experienced managers, both at Western Star and at Orion. Strong financial controls are being implemented. We will also be commencing the introduction of extensive new management information systems in 1997, which will electronically link Western Star and its subsidiaries. These systems are designed to streamline operations and improve efficiencies in delivering services and products. Therefore, over the long-term, this investment will pay good commercial returns for Western Star.

Looking ahead what does the future look like for the Western Star group of companies?

At Western Star there is potential for 1997 to be a good year. We are experiencing strong orders for the new Constellation Series of trucks, despite a slower truck market. That's because we remain a top choice for many over-the-road highway drivers and in vocational industries such as forestry and the energy sector. We are key suppliers to both industries in Canada and the U.S. We also expect increased sales internationally due to our expanded sales and marketing presence. Orion Bus Industries is positioned for strong growth in 1997 due to enhanced production capacity and strong orders from several major centres across North America. Additionally, our military vehicle line offers attractive opportunities for growth domestically and overseas. And we are proceeding with the integration of ERF which will add considerable strength to our operations. We have truly arrived as a major international player that can deliver vehicles to every corner of the globe. Western Star will also continue to look at new opportunities and acquisitions that can strengthen the group on a North American or international basis. We are very excited about the future and believe that 1997 will be a year of positive growth for Western Star.

Bradley Stam, President

Terry Peabody, Chairman

October 4, 1996

EVERY WESTERN STAR TRUCK RECEIVES CUSTOM CRAFTING.

Developing *opportunities for growth*

ENGINE DROP & MOUNT ON THE WESTERN STAR ASSEMBLY LINE.

1996 was a year of major development for Western Star. The company launched a new series of heavy-duty trucks, significantly increased production at its transit bus division and expanded its international reach with the acquisition of a major truck manufacturer in the United Kingdom.

In 1996, revenue was $783.3 million compared to $726.0 million in 1995. Net income for the year was $36.5 million versus $41.6 million in the prior year. For the year ended June 30, 1996, heavy-duty truck and bus sales were 84 percent of total revenue, Light Support Vehicles (LSVW) were 2 percent and aftermarket parts represented 14 percent.

A YEAR IN REVIEW WITH WESTERN STAR TRUCKS HOLDINGS LTD.

The Preferred Choice

Western Star's experience in designing and building specialized trucks is unique in the world. The company builds for niche markets that other manufacturers can't effectively serve and where demand remains steady even in lower industry cycles. Over-the-road highway business is the company's core market, and Western Star's heavy-duty Class 8 truck remains the vehicle of choice for many independent owner-operators. Western Star's heavy-duty trucks are also used extensively throughout North America by small to medium fleet operators for vocational applications such as logging, construction, oil field service and mining. In all cases, customers come to Western Star because they want a quality, custom-crafted truck that is durable, reliable, and provides a high return on investment.

Market Strength

Highway freight haulage continues to increase in the United States. Business from the resource sector is also on the rise in both Canada and the United States. Strong sales were recorded during 1996 in Western Canada for heavy-duty trucks used in the energy and forestry industries. Western Star is also experiencing growing demand for its vehicles in the logging industry in the states of Oregon, Florida and Mississippi. In 1996, Western Star was successful in entering two new markets in the readymix concrete vocation, which involved the introduction of 6x6 units for the Florida market and a 29-inch setback model for the U.S. Westcoast market.

Orders Surge For Constellation

In January, 1996 Western Star launched its Constellation Series of trucks, the culmination of years of teamwork not only from employees, but also the company's valued dealer network and customer base. Demand for the new product line is very strong, with Constellation models representing over 80 percent of new product orders at year end.

Western Star invested $28.0 million in the research, development and production processes of the Constellation Series. While the transition to new manufacturing and assembly procedures affected capacity in the initial phases of production, these problems are being resolved.

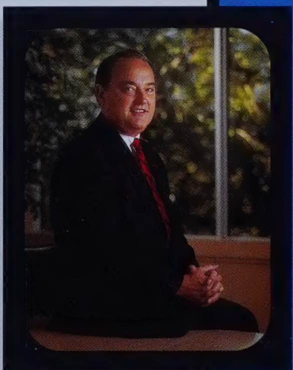
Orion Penetrates North American Bus Market

In June 1995, Western Star diversified its automotive business with the acquisition of Orion Bus Industries. In the past year, Orion has clearly established itself as a major player in the North American transit bus industry. The Orion nameplate is recognized for quality and innovation, a reputation that is winning the company significant contracts in numerous major North American cities.

Orion made significant strides during the year, ramping up production from 2 to 16 buses per week. With manufacturing facilities in Ontario and New York state, Orion is on a fast track with 1,618 buses on order, representing approximately 23 months of work and a value of approximately $593.5 million.

ERF Acquisition Opens Key Export Markets

In June 1996, Western Star acquired ERF (Holdings) plc, a heavy-duty commercial vehicles manufacturer based in the United Kingdom. Recognized as manufacturing the best



ROBERT A. ENRIGHT: EXECUTIVE VICE PRESIDENT & CHIEF OPERATING OFFICER OF WESTERN STAR TRUCKS INC.

Special Purpose Vehicles for Niche Markets

Western Star's military vehicle line is an excellent example of the company's ability to engineer and customize for niche markets. Approximately 3,000 Light Support Vehicles (LSVW) have been delivered to the Canadian government and the company continues to fulfill a 15-year LSVW parts supply contract.

In March, 1996 Western Star was awarded a further

$10.9 million contract to supply 48 special purpose 6x6 vehicles to the Canadian Department of National Defense. These vehicles, identified as the EHESV (Extra Heavy Engineering Support Vehicle), will be used by the Canadian Army domestically and other locations overseas. They are similar to units being provided by Western Star to Pakistan and to those on trial in Kuwait.

As a result of the military work, Western Star has created a highly capable engineering group. Their expertise in custom-building highly specialized, durable vehicles of this kind is at the core of Western Star's growing reputation as a supplier of military vehicles to Canada and markets around the world.

engineered trucks in Europe, ERF shares the Western Star vision of building custom-designed trucks of the finest quality for a wide range of purposes.

Together Western Star and ERF are positioned to play a major role in the world custom heavy-duty truck market. ERF's business provides an entry into Europe and South Africa, markets where Western Star has not had a presence. The company also manufactures an excellent "cab-over" design truck that complements Western Star's current line of Class 8 trucks. This strategic acquisition is enabling the Western Star group to realize significant benefits in relation to engineering, research and development and materials purchasing.

ERF ASSEMBLY LINE, SANDBACH, UNITED KINGDOM.

Targeting International Opportunities

On the international front, Western Star is recognized for building durable, flexible vehicles that offer high performance in rugged terrain such as mountains, snow, mud and sand. Currently, southeast Asia is a key export market for Western Star. Other important export markets include Latin America, the Middle East and Africa where heavy-duty trucks are required for the forestry, mining and petroleum industries.

Western Star has recently appointed a new Vice President of International Sales, and increased its sales group to focus on export sales outside North America and Australia in countries and markets where there is demand for premium, severe-service vehicles. Vehicles of this kind bring higher sales margins, making a significant contribution to Western Star's revenue.

Building The Dealer Network

Western Star has 142 full-service dealers throughout North America and 197 internationally, including the ERF dealer network. As the company's major sales pipeline, dealers also play an important role by providing customer feedback on vehicle design and performance.

In the United States, Western Star recently expanded its regional sales force to increase the quality and frequency of visits to its dealer sites. In 1997, Western Star is targeting to add approximately 30 new American dealers in centres with large volume potential such as Chicago, Detroit, Atlanta and Cleveland.

Aftermarket Support

Significant growth has been achieved in aftermarket parts where Western Star supplies the heavy-duty truck and transit bus markets. Aftermarket parts and support are always required, even when demand for new trucks is lower. In 1996, aftermarket parts sales totalled $105.7 million up 43 percent over the previous year. Distributed through its dealer network, Western Star heavy-duty truck parts are supplied through warehouses in: Mississauga, Ontario; Edmonton, Alberta; Memphis, Tennessee; Reno, Nevada; and Brisbane, Australia. Transit bus parts are accessed from a dedicated parts warehouse in Oriskany, New York, and through truck parts warehouses in Mississauga, Ontario and Reno, Nevada. Further attractive revenue growth is expected in this business segment due to the combined aftermarket support presence of Western Star and its Orion and ERF subsidiaries.

Western Star Finance Offers Complete Financing Solutions

In July, 1996, Western Star joined with Newcourt Credit Group to provide an exclusive financing source for Western Star's North American dealers and customer base and ultimately the company's international network. Western Star Finance is set up to offer a full menu of financing solutions and vendor support services, providing the company's dealers and customers with a distinct competitive advantage.

Looking Ahead

Western Star is positioned for significant growth in 1997 and beyond. The new Constellation Series is meeting with broad customer acceptance and will serve to strengthen Western Star's share of the heavy-duty truck market. Orion has increased production capacity and has orders from transit authorities in over 40 cities throughout North America. Western Star's military vehicle line continues to have considerable growth potential worldwide. And ERF brings new products and markets to the company's increasing international presence. To support the company's rapid growth, Western Star is installing enhanced management information systems throughout its entire operation. These new systems are being developed to improve productivity from materials and inventory control to parts management and engineering design. As for the long term, Western Star will continue to develop opportunities that enhance its leadership position in the custom automotive business worldwide.

Stars Of The Road

Constellation Series a Clear Winner

Western Star has a distinguished history of providing competitive, top quality products and services to meet customers' specific needs and expectations. Western Star's heavy-duty trucks are among the most customized trucks in the world, resulting in a growing, loyal customer base. But the company is well aware that nothing is as constant as change, and products must continuously improve to meet the evolving needs of the marketplace.

The Constellation Series is the result of years of research and development aimed at creating the finest series of customized trucks ever made. Western Star reached out to its dealer network and customers, involving them in every aspect of the truck's design. Their feedback and recommendations are directly reflected in the finished product.

The Constellation Series models are entirely manufactured in Kelowna using the latest technology to provide an innovative, lightweight, structurally integrated product. Using double galvanized steel, final cab assembly is pre-treated with a 17-stage process, which includes eight zinc-phosphate pre-treatment stages to enhance corrosion resistance and aid in primer adhesion.

Launched in January 1996, the Constellation Series is meeting with excellent acceptance throughout North America. It carries on the performance of the "Heritage" line which has the highest return on investment in the heavy-duty truck market, but adds new, improved features such as a larger cab and greater head and leg room, aerodynamic design and improved visibility. The Constellation product is a clear winner for Western Star.

CONSTELLATION SERIES MODEL 4964 FX.

Taking It To The Street – 90-day Caravan Launches New Truck Line

Western Star took its new product on the road in February, 1996 when it embarked on a 90-day caravan across North America. The new truck models were viewed by more than 75,000 people in the course of the caravan that made stops at Western Star dealerships and truck shows.

As the trucks arrived at dealer sites, open houses were held and numerous customers and suppliers attended to see and learn more about the new series. To promote the caravan, Western Star undertook a very aggressive advertising campaign including print and broadcast media.

While the caravan was a logistical challenge, taking the product to the street was completely in keeping with Western Star's style of staying close to its customers. Response to the new product has been outstanding.

CONSTELLATION SERIES MODEL 4964 FX

Orion shines as bus orders increase

For Orion Bus Industries, 1996 was a major turnaround year. The company ramped up production from 2 to 16 buses per week as it continued to win significant new business contracts throughout North America. To continue this rapid growth, a new $10 million state-of-the-art, purpose-built bus manufacturing plant is being constructed in Mississauga, Ontario. The new 216,000 square-foot facility will permit the assembly of 20 bus frames per week. Final assembly takes place at the Oriskany, New York facility, which implemented a new assembly line process in May, 1996 to allow for more efficient production and increased build rates in 1997.

KELLY KENNEDY, CHIEF OPERATING OFFICER, ORION BUS INDUSTRIES.

As a division of Western Star, Orion draws on considerable expertise in engineering, product development and manufacturing. Essentially, a bus is very much like a highly specialized truck. Orion provides different options to every customer such as different doors, seating, or engines to meet a particular transit authority's unique needs.

Currently, Orion has orders for over 1600 buses from 41 customers throughout North America at a value of approximately $593.5 million. Major contracts for high-floor, Orion V buses include 85 buses for New Orleans, 178 buses for New York City, 135 buses for Toronto, and 262 buses for Washington D.C. Pre-orders are also strong for the new low-floor Orion VI which will go into production during the second quarter of fiscal 1997. The Orion VI applies low floor technology to conveniently accommodate the physically challenged.

Buses For All Purposes

Orion's 26-foot mini-buses continue to be a popular choice for community-oriented or shuttle transit services. The Orion II buses also feature a low-floor design and a simple retractable ramp to board customers using wheelchairs or scooters. The buses are front-wheel drive and air conditioned to provide additional passenger and operator comfort. Orion is in the process of re-engineering and re-powering the Orion II.

In response to tighter emission standards, Orion is currently working with several transit properties in the pilot production of a hybrid electric bus. Orion is highly advanced in its ability to provide alternative fuel vehicles, offering diesel, liquefied natural gas and compressed natural gas.

Aftermarket Support

Orion has also established a significant aftermarket parts presence with a dedicated parts warehouse in Oriskany. Aftermarket parts are also

THE ORION II MINI-BUS IN NEW WESTMINSTER, BRITISH COLUMBIA.

ORION MANUFACTURING FACILITY, ORISKANY, NEW YORK.

The Orion VI: The Only True Low-Floor Bus

Orion has taken the lead in the transit bus market when it comes to the area of low-floor technology. The Orion VI is the only true low-floor bus on the market, providing greater access for the physically challenged and a rear door behind the back wheels for improved safety. The floor is completely flat from front to back with no steps.

The Orion VI has undergone extensive testing and evaluation, including a shaker test which simulates city road conditions - the actual wear and tear of a transit bus during its lifetime. To gather data for the test, Orion took a bus to the streets of New York City and captured all the road conditions and signals. The data is entered into a large shaker machine which simulates the road signals in hydraulic cylinders and puts the bus through the equivalent of 500,000 city miles. This type of testing ensures durability and reliability, even in the toughest city environments.

Slated to begin production in the second quarter of fiscal 1997, the Orion VI is already in demand, with 297 buses on order. Legislation aimed at improving accessibility for the physically challenged in public places, indicates strong growth potential for this product in both Canada and the United States.

available in Western Star's warehouses in Reno, Nevada and Mississauga, Ontario and will be installed in the Memphis, Tennessee and Edmonton, Alberta warehouses in 1997. To effect significant cost savings, Orion participates with Western Star in accessing major components from common suppliers.

Strategies For Growth

To facilitate future growth, Orion has added key senior management staff in engineering, aftermarket parts and manufacturing. In particular, depth in engineering ensures the integrity and quality of product. New management information systems being installed throughout the Western Star group, will improve efficiencies in every aspect of the transit bus operations from engineering and manufacturing to purchasing.

Orion has an exciting future with a strong order board and the ongoing development of innovative new products. It is expected that the market will remain favourable for the next several years since bus fleets, which operate on a 12-year cycle, are currently aging. Most capital funding is provided by provincial governments in Canada and by federal agencies in the United States. Based on the current amount of funding available in North America, tenders for bus replacements should continue at healthy levels. The next phase of growth for Orion will involve the pioneering of new low emission products to take the company successfully into the 21st century.

ERF'S TOP SELLING EC SERIES OF TRUCKS.

ERF

Acquisition Completes Global Circle

The expansion of international sales is a key corporate growth strategy for Western Star and the driving force behind the company's recent acquisition of ERF (Holdings) plc. The combination of the two companies offers significant benefits to each operation.

(L-R) JOHN BRYANT, MANAGING DIRECTOR AND PETER FODEN, CHAIRMAN, ERF (HOLDINGS) PLC.

Recognized as one of the leading manufacturers of heavy commercial vehicles in the United Kingdom, ERF offers a strong brand name, together with an entry point into the European and African markets where Western Star does not have a presence. ERF manufactures a high-quality "cab-over" design truck which complements Western Star's line of Class 8 trucks, presenting opportunities to market this popular model to fast growing export markets which prefer or require a "cab-over" truck. Through its network of distributors, including three wholly-owned distributor companies, ERF also sells parts for, and services commercial vehicles.

ERF's manufacturing facility is located in Sandbach, England, 25 kilometres from Manchester. ERF markets its vehicles in the United Kingdom and in international markets including South Africa where approximately 50 percent is in the bus and coach market. A dealer network is in place in France and Spain. ERF also exports to Malawi, Zimbabwe, Kenya and New Zealand. All of these Southern Hemisphere countries have a great deal in common with regard to vehicle specifications and conditions of operation. Western Star's extensive distribution network will enable the sale of ERF models into Australia, southeast Asia, the Middle East and South America.

Both ERF and Western Star share the same manufacturing approach - extensive flexibility. ERF doesn't mass produce a fixed range of all purpose vehicles, but rather custom-crafts its vehicles to meet a wide range of applications. Each truck is tailor made on the production line to the highest levels of specification. ERF offers eight different basic models with over 2,000 options. And ERF trucks are renowned for their exceptional reliability, low maintenance costs and long life, providing an excellent return on investment.

Three years ago, ERF launched its now top selling EC and EC Olympic series of vehicles. The EC Cab incorporates leading-edge technology to produce a high performance, durable and driver-friendly vehicle. Demand continues to grow for this very popular model.

The combination of ERF and Western Star presents both companies an excellent opportunity to market their complementary range of products into cross-over markets and also into new markets such as eastern and western Europe.

Management's *Discussion and Analysis*

Revenue

Western Star's revenue for the year ended June 30, 1996 was $783.3 million, an increase of $57.3 million or 7.9 percent over the year ended June 30, 1995. This revenue was composed of heavy-duty trucks and parts revenue of $551.5 million, LSVW contract revenue of $24.4 million and transit bus and parts revenue of $207.4 million. This compares with heavy-duty trucks and parts revenue of $593.9 million, LSVW contract revenue of $131.1 million and transit bus and parts revenue of $1.0 million for the year ended June 30, 1995.

Heavy-duty trucks revenue was $466.5 million in fiscal 1996 versus $523.0 million for the prior year. Unit sales in 1996 were 4,517 compared to 5,034 for 1995. Revenue from the sale of truck and bus parts for the year ended June 30, 1996 was $98.3 million versus $71.7 million for the previous year.

Geographic sales for heavy-duty trucks and parts in fiscal 1996 were $197.5 million to customers in Canada, $261.0 million to customers in the United States and $92.9 million to international customers. This compares with sales for the year ended June 30, 1995 of $226.9 million to customers in Canada, $242.0 million to customers in the United States and $125.0 million to international customers.

Revenue from the sale of heavy-duty trucks decreased in Canada in the last year and increased in the United States in the face of an approximate 12 percent decline in the North American heavy-duty truck market generally. The company has continued to increase its market share in the United States and continues to expand and strengthen its North American dealer network. International sales declined primarily due to accelerated purchasing by Australian customers in order to obtain the benefit of tax incentive programs which expired June 1995.

LSVW contract revenue of $24.4 million for the year included 214 LSVW units amounting to $17.0 million in vehicle sales and $7.4 million in parts sales. This compares with 2,055 LSVW units, or $128.9 million in vehicle sales, and $2.2 million in LSVW parts sales for the year ended June 30, 1995.

Geographic sales of buses and bus parts in fiscal 1996 were $46.5 million to customers in Canada, and $161.0 million to customers in the United States. Unit sales in 1996 were 535 compared to 1 in 1995. The results of fiscal 1996 represent Orion Bus Industries Ltd.'s first full year of operations.

Gross Profit

Gross profit for the year was $99.5 million, an increase of $18.8 million or 23.3 percent over the prior year. As a percentage of sales, gross profit increased to 12.7 percent from 11.1 percent.

Selling and Administrative Expenses

Selling and administrative expenses increased $21.7 million to

1996 FINANCIAL HIGHLIGHTS

Years ended June 30	1996	1995
Revenues	$ 783,319,000	$ 726,022,000
Cash flow from operations	48,637,000	45,536,000
Per Share – Basic	$ 4.10	$ 4.09
– Fully Diluted	$ 3.88	$ 3.90
Net Income	36,523,000	41,559,00
Per Share – Basic	$ 3.08	$ 3.73
– Fully Diluted	$ 2.89	$ 3.58

$47.6 million for the year ended June 30, 1996, reflecting the first full year of operations for Orion and the commencement of production of the Constellation Series trucks. Selling and administrative expenses as a percentage of total revenue increased from 3.6 percent to 6.1 percent and as a percentage of total of gross profit increased from 32.1 percent to 47.8 percent.

Income Tax Expense

Income tax expense increased $0.6 million to $13.9 million for the year ended June 30, 1996 from $13.3 million for the year ended June 30, 1995. As a percentage of net income before tax, income tax expense increased 3.3 percentage points to 27.6 percent from 24.3 percent in the previous year. The increase in income tax expense is largely due to the application of loss carryforwards in the year ended June 30, 1995. The increase is partially offset by foreign tax rate differentials and the nontaxable nature of the Orion share purchase incentive realized in the year ended June 30, 1996.

Net Income

Net income decreased $5.0 million to $36.5 million in fiscal 1996, principally as a result of increases in selling and administrative expenses and interest expenses.

Liquidity and Capital Resources

Western Star's consolidated net cash position at June 30, 1996 was $24.4 million compared to $58.8 million at June 30, 1995.

Cash flow from operations for the year ended June 30, 1996 was $48.6 million compared to $45.5 million in 1995. Net cash used in operating activities was $30.4 million, compared to cash provided from operations of $41.6 million for the same period in 1995.

Cash provided by financing activities for the year ended June 30, 1996 was $75.4 million compared to $27.5 million for the prior year. Financing activities included an increase in loans and advances of $46.9 million, issuance of common shares of $29.5 million, issuance of loan notes payable for $1.8 million, distribution of quarterly dividends of $4.8 million, and release of LSVW contract cash collateral deposits of $2.1 million.

Cash used in investing activities for the year ended June 30, 1996 was $79.5 million compared to $31.1 million in 1995. Investing activities included, $22.6 million in capital asset additions, $20.7 million in deferred costs, $54.6 million for the acquisition of ERF, and $19.0 million remaining payable for the acquisition of ERF.

Risks and Uncertainties

Sales of Western Star trucks are largely dependent upon the general level of economic activity in the markets in which Western Star sells its trucks. Historically, North America has been Western Star's principal market. The acquisition of ERF expands Western Star's market reach to Europe and other international

markets. Notwithstanding the company's corporate strategy of increasing sales and establishing new markets internationally, an economic recession in either North America or Europe could still have an adverse effect on the company's revenue and profitability.

Many transit authorities that could or do purchase transit buses from the company receive provincial, state or federal subsidies in connection with such purchases. The reduction or elimination of such subsidies could affect the ability of particular transit authorities to purchase transit buses.

The majority of purchasers of transit buses are transit authorities, some of which are subject to provincial, state or federal legislation, trade agreements or policies that restrict those purchases to suppliers that meet particular criteria regarding place of origin or manufacture of buses. Changes in such legislation, trade agreements or policies, or the adoption thereof in other geographical markets, could restrict Western Star's access to those markets, or increase competition in markets in which the company is currently the preferred or qualified supplier.

Western Star has a significant portion of its revenue denominated in U.S. dollars. Should the Canadian dollar appreciate significantly in relation to the U.S. dollar, the competitive advantage Western Star currently enjoys over American manufacturers of automotive vehicles could be eroded. However, this erosion would be partially offset by a reduction in the cost of materials and components purchased in U.S. dollars.

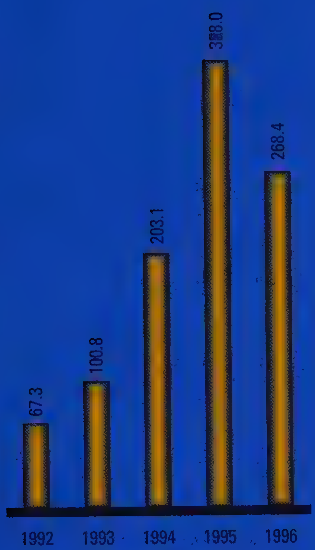
Outlook

Western Star will continue to enhance its heavy-duty trucks sales and distribution capability in North America, South America and Asian markets, and through the acquisition of ERF, in Europe and African markets.

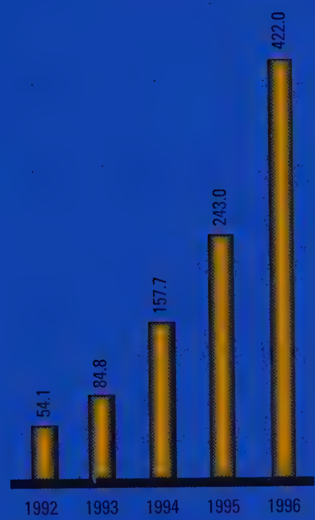
Western Star's new Constellation Series of trucks is enjoying broad market acceptance and the company expects demand will continue to grow.

Orion has emerged as a major competitor in the transit bus industry through emphasis on stream-lined production processes, re-engineering of the Orion product line, and increased emphasis on marketing and aftermarket parts. Orion is a significant contributor to Western Star's revenue and profitability. The company is near completion of the design and development of its new low-floor bus, the Orion VI, a standard length, transit bus designed to easily accommodate the physically challenged and elderly passengers. Production of the Orion VI is anticipated in the second quarter of fiscal 1997 and pre-orders are strong.

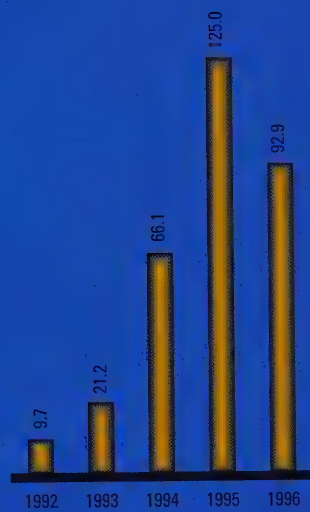
Orion continues development of its low emission products to take the company successfully into the 21st century.



Canadian Revenue
(expressed in millions $)

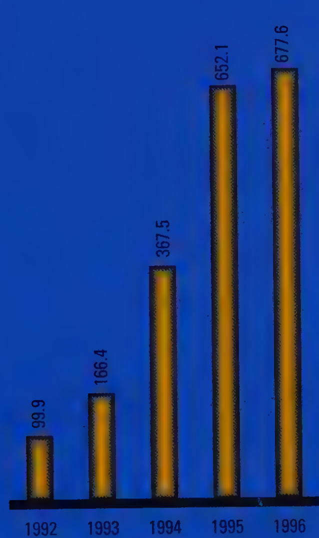


U.S. Revenue
(expressed in millions $)

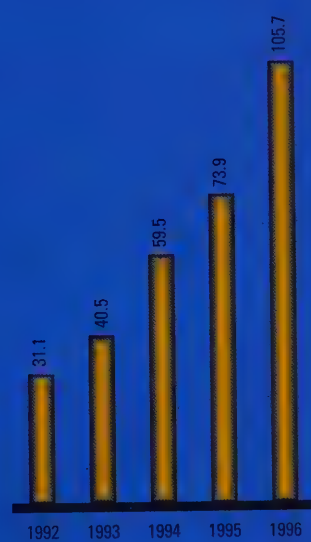


International Revenue
(expressed in millions $)

1996 PERFORMANCE GRAPHS



Vehicle Revenue
(expressed in millions $)



Parts Revenue
(expressed in millions $)

AUDITORS' REPORT

To the Shareholders of Western Star Trucks Holdings Ltd.

We have audited the consolidated balance sheets of **Western Star Trucks Holdings Ltd.** as at June 30, 1996 and 1995 and the consolidated statements of operations and retained earnings and cash flows for each of the years in the three year period ended June 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended June 30, 1996 in accordance with accounting principles generally accepted in Canada. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

Vancouver, Canada,
September 4, 1996
(except as to note 19 which is as at September 20, 1996).

Ernst & Young
Chartered Accountants

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, include some amounts that are based on management's best estimates and judgements. The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

A system of internal accounting and administrative controls is maintained by management in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide accurate and reliable financial statements.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting and internal control. The Audit Committee meets with management and the independent auditors. The Audit Committee reports its findings to the Board for consideration in approving the financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young, Chartered Accountants, who were appointed by the shareholders. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

Terry E. Peabody
Chairman
and Chief Executive Officer

G. A. (Drew) Fitch
Executive Vice President,
Chief Financial Officer

CONSOLIDATED BALANCE SHEETS

WESTERN STAR
TRUCKS HOLDINGS LTD.

As at June 30	1996	1995
[in thousands of dollars]		
ASSETS		
Current		
Cash [note 4]	56,908	58,834
Cash collateral deposits – LSVW Contract [note 11]	400	2,480
Accounts receivable	128,304	47,320
Unbilled revenue	21,059	–
Prepaid expenses and other	3,668	4,944
Deferred LSVW account [note 5]	747	7,314
Inventories [note 6]	157,539	66,519
Total current assets	368,625	187,411
Capital assets [note 7]	102,766	43,451
Deferred costs [note 8]	36,742	16,420
Goodwill [note 4]	6,361	–
Prepaid pension expense	10,900	–
Investments and other	4,393	–
	529,787	247,282
LIABILITIES, NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 9]	32,497	–
Accounts payable	128,431	64,148
Acquisition amount payable [note 4]	19,001	–
Accrued liabilities	39,877	31,966
Income taxes payable	2,828	5,845
Deferred income taxes	1,049	–
Customer deposits and advances	12,473	16,491
Loans and advances and capital lease obligations [note 10]	82,324	10,893
Total current liabilities	318,480	129,343
Deferred income taxes - non-current	5,725	1,794
Loan notes payable [note 4]	1,834	–
Customer deposits and advances – non-current	7,334	3,438
Loans and advances and capital lease obligations – non-current [note 10]	22,763	14,316
Total liabilities	356,136	148,891
Commitments and contingencies [note 11]		
Non-controlling interest [note 12]	29,036	15,000
Shareholders' equity		
Share capital [note 13]	61,653	32,166
Retained earnings	82,962	51,225
Total shareholders' equity	144,615	83,391
	529,787	247,282

See accompanying notes

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended June 30	1996	1995	1994
(in thousands of dollars except per share amounts)			
Revenue	783,319	726,022	426,974
Expenses			
Cost of sales	683,773	645,301	384,769
Selling and administrative	47,619	25,912	14,462
Interest [income] expense – net	815	(81)	457
	732,207	671,132	399,688
Net income before non-controlling interest and taxes	51,112	54,890	27,286
Non-controlling interest [note 12]	662	–	1,578
Net income before taxes	50,450	54,890	25,708
Income tax expense [note 14]	13,927	13,331	4,586
Net income	36,523	41,559	21,122
Retained earnings [deficit], opening balance	51,225	13,062	(5,317)
Share issue costs	40	271	(2,743)
Dividends paid	(4,826)	(3,667)	–
Retained earnings, closing balance	82,962	51,225	13,062
Net income per share [note 18]	3.08	3.73	2.61
Fully diluted net income per share	2.89	3.58	2.61

See accompanying notes

WESTERN STAR TRUCKS HOLDINGS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

WESTERN STAR TRUCKS HOLDINGS LTD.

Years ended June 30	1996	1995	1994
[in thousands of dollars except per share amounts]			
OPERATING ACTIVITIES			
Net income	36,523	41,559	21,122
Adjustment for items not involving cash			
Depreciation and amortization	5,212	2,183	1,895
Non-controlling interest	–	–	1,258
Deferred income tax	6,902	1,794	–
Cash flow from operations	48,637	45,536	24,275
Changes in non-cash working capital balances relating to operations	(79,030)	(3,942)	(16,089)
Cash provided by (used in) operating activities	(30,393)	41,594	8,186
FINANCING ACTIVITIES			
Loan notes payable	1,834	–	–
Dividends paid	(4,826)	(3,667)	–
Decrease in cash collateral deposits	2,080	6,008	1,442
Loans and advances and capital lease obligations	46,948	240	563
Common shares	29,487	533	31,533
Share issue costs	40	271	(2,743)
Increase (decrease) in non-controlling interest	–	15,000	(10,208)
Increase (decrease) in customer deposits	(122)	9,104	–
Cash provided by financing activities	75,441	27,489	20,587
INVESTING ACTIVITIES			
Increase in other assets	(583)	–	–
Capital asset additions	(22,609)	(18,363)	(3,513)
Increase in deferred costs	(20,684)	(8,405)	(5,377)
Acquisition of ERF Holdings [note 4]	(54,596)	–	–
Acquisition amount payable [note 4]	19,001	–	–
Acquisition of Orion assets [note 3]	–	(25,344)	–
Share purchase incentive [note 3]	–	21,000	–
Cash used in investing activities	(79,471)	(31,112)	(8,890)
Increase (decrease) in cash	(34,423)	37,971	19,883
Cash, beginning of year	58,834	20,863	980
Cash, end of year	24,411	58,834	20,863
Cash comprises the following:			
Cash	56,908	58,834	20,863
Bank indebtedness	(32,497)	–	–
	24,411	58,834	20,863
Cash flow from operations per share [note 18]	4.10	4.09	2.99
Fully diluted cash flow from operations per share	3.88	3.90	2.99

See accompanying notes

WESTERN STAR
TRUCKS HOLDINGS LTD.

1. Basis of Presentation

These financial statements include the consolidated accounts of the Company and its subsidiaries.

In these financial statements, unless the context otherwise indicates, a reference to Western Star refers to the Company together with its subsidiaries.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which conform, in all material respects, with accounting principles generally accepted in the United States, except as described in note 17. The following accounting policies have been used:

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined for trucks, buses and work in process on a specific identification basis and for parts and components using standard and average costs which approximate costs determined on a first in first out basis.

Capital assets

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

The depreciation rates are as follows:

Buildings	2.5%
Machinery, equipment, and other assets	10%-20%

Leasehold improvements are amortized over the term of the lease.

Capital leases

A lease which transfers substantially all of the benefits and risks incidental to the ownership of property is accounted for as if it were an acquisition of an asset and the incurrence of an obligation at the inception of the lease. Assets recorded under capital leases are amortized over the lease term.

Deferred costs

Capitalization of product development costs

Costs relating to product development that in Western Star's view is technically feasible and has a clearly defined future market are capitalized. Upon completion and attainment of commercial production, the capitalized development costs will be amortized on a straight-line basis over a 5 year period. If a product is subsequently determined not to be technically feasible or commercially viable, the related capitalized costs are charged against income at that date.

Dealer network, trademarks, rights and entitlements

Dealer network, trademarks, rights and entitlements reflect the allocation of the purchase price differences arising from the financial restructuring and acquisitions in 1991. In the absence of evidence of impairment in value, the cost of dealer network, trademarks, rights and entitlements is being amortized over 20 years on a straight-line basis. Management annually reviews the carrying value using its best estimate of undiscounted future cash flows.

Deferred start-up costs

Pre-operating and start-up costs incurred in connection with new manufacturing facilities are deferred until commencement of commercial production. These costs will be amortized on a straight-line basis over a 5 year period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 1996 and 1995

2. Summary of Significant Accounting Policies (cont'd)

Goodwill

Goodwill reflects the unallocated purchase price discrepancy arising from the acquisition of ERF (Holdings) plc ("ERF Holdings"). In the absence of evidence of impairment in value, goodwill is being amortized over 20 years on a straight-line basis. Management annually reviews the carrying value of goodwill using its best estimate of undiscounted future cash flows.

Investments

Western Star accounts for investments in other entities in which it has significant influence using the equity method.

Revenue recognition

Revenue from the sale of trucks is recognized when ownership is transferred. Revenue from the sale of manufactured buses is recognized on a percentage of completion method, which corresponds with the degree of completion of the bus. A provision is made for all anticipated losses, if any, as soon as they become evident. Revenue from sales of aftermarket parts is recognized upon shipment to customers.

Long-term contracts

Western Star defers all costs related to the procurement of long-term contracts. Upon receiving a contract, procurement costs are included in the costs of the contract. If the contract is not obtained, the costs will be charged against income at that date.

Western Star recognizes income on long-term contracts using the percentage of completion method of accounting. The percentage of completion method of accounting for the LSVW Contract is based on units of production for inventoriable truck costs and on applicable costs for the project management component of the contract.

Foreign currency translation

The foreign currency transactions of Western Star are translated using the temporal method whereby non-monetary assets and liabilities, revenue and expenses are translated at rates in effect on the dates of the transactions. Monetary assets and liabilities are translated at year-end rates.

Integrated foreign subsidiaries are translated using the temporal method. Exchange gains or losses arising from translation are reflected in income immediately.

Self-sustaining foreign subsidiaries are translated using the current rate method, whereby assets and liabilities are translated at year-end rates and revenue and expenses are translated at rates in effect on the dates of the transactions. Exchange gains or losses arising from translation are deferred and included in a separate component of shareholders' equity.

Warranty

Western Star provides for warranty costs based on historical experience when the related truck and bus sales are recognized.

Pension costs and obligations

Pension costs and obligations are charged to earnings as determined on the basis of a valuation by an independent actuary using the projected benefit method prorated on services and best estimate assumptions. Current service costs are charged to income in the year incurred. Adjustments arising from plan amendments, experience gains and losses, and adjustments resulting from changes in assumptions are amortized on a straight-line basis over the expected average remaining service life of the employees.

Income taxes

Western Star follows the deferral method of income tax allocation. Under this method, timing differences between reported and taxable income result in provisions for taxes which are not currently payable at rates in effect in the year of the difference.

WESTERN STAR
TRUCKS HOLDINGS LTD.

3. Orion Acquisition

In May 1995, the Company incorporated Orion Bus Industries Ltd. and its wholly owned United States subsidiary, Orion Bus Industries Inc. (collectively "Orion"), for the purpose of acquiring selected assets (the "Orion Assets") of Ontario Bus Industries Ltd. and its subsidiaries (collectively "OBI"), which manufactured transit buses for municipal and local transit authorities under the "Orion" trademark (the "Orion Acquisition"). OBI is a wholly owned subsidiary of Urban Transit Development Corporation ("UTDC"), a Crown corporation of the Province of Ontario.

The acquisition of the Orion Assets was funded by a $36 million share subscription in Orion from the Company and a $15 million preferred share subscription from UTDC [note 12]. The Company used $15 million of its own funds for the common share subscription and received share purchase incentives from the Province of Ontario and Boreal P & C Insurance Company, aggregating $21 million, thus reducing the cost of its investment in Orion's common shares to $15 million.

The acquisition cost for the Orion Assets was allocated by Western Star, on a consolidated basis, as follows:

(in thousands of dollars)	
Inventory	26,845
Capital assets	10,263
Intangibles and deferred costs	385
	37,493
Less: Liabilities assumed or adjusted	(33,149)
Cash consideration paid or payable	4,344

The liabilities assumed or adjusted include $15.5 million which reflect the costs associated with commencing Orion's operations over the estimated start-up period and which were included in Western Star's income on a diminishing basis over that period ($3.1 million in fiscal 1995 and $12.4 million in fiscal 1996).

Orion commenced operations on June 7, 1995 and had no active operations prior to this date. Accordingly, the June 30, 1995 financial statements only reflect Orion's operations for the 24-day period then ended.

4. ERF Holdings Acquisition

On May 20, 1996, the Company announced a take-over bid to purchase all of the ordinary shares, of ERF Holdings, a manufacturer of heavy-duty commercial vehicles in the United Kingdom. Prior to this date, the Company had acquired 2,112,900 ordinary common shares of ERF Holdings. The first closing of the offer was June 24, 1996. On June 25, 1996, closing of the offer was made unconditional. As at June 30, 1996, 5,207,538 ordinary shares had been duly tendered pursuant to the terms of the take-over bid thereby providing the Company with a 73% interest in the issued ordinary shares of ERF Holdings. From July 1, 1996 to August 2, 1996, a further 2,013,165 ordinary shares were tendered pursuant to the take-over bid bringing the Company's ownership to 9,333,603 ordinary shares representing 93% of the ordinary shares issued. On August 23, 1996 the Company commenced compulsory acquisition proceedings to acquire the remaining outstanding shares not already tendered. Barring any objection filed by holders of the remaining shares, the acquisition will be complete and 100% of the shares acquired on or about October 4, 1996.

The terms of the take-over bid for the ordinary shares provided for a cash offer of 275 pence per share. Except for certain overseas shareholders, shareholders could elect to receive either 15.905 common shares of the Company for every 100 ordinary shares of ERF Holdings or loan notes of the Company at par with the cash consideration otherwise payable. In conjunction with the take-over bid, $51.5 million (£24.3 million) was held in trust as at June 30, 1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 1996 and 1995

4. ERF Holdings Acquisition (cont'd)

The loan notes are guaranteed by The Royal Bank of Scotland plc. The loan notes pay interest for each six month period ending June 30 and December 31 at a rate of interest equivalent to the six month London Interbank Offered Rate ("LIBOR") less one percent as determined on the first business day of each interest period. The loan notes mature December 31, 2001. Holders of loan notes can require the Company to redeem their notes in whole or in part on the first day following their first anniversary and thereafter on any interest payment date. Redemption of the loan notes may occur at an earlier date under limited circumstances.

On May 31, 1996, the Company announced a bid to purchase all of the outstanding preference shares of ERF Holdings for cash at 120 pence per share. As at June 30, 1996, the Company had received undertakings to tender 603,186 preference shares, which represents 65% of the issued preference shares. From July 1, 1996 to August 2, 1996 the Company received further undertakings to tender 295,121 preference shares bringing the Company's ownership to 898,307 preference shares representing 96% of the preference shares issued.

The acquisition was accounted for using the purchase method. As at June 30, 1996, the acquisition equation is as follows:

(in thousands of dollars)

Assets acquired	
Current assets (excluding cash of $1,325)	111,793
Capital assets	41,556
Investments	3,809
Prepaid pension expense	10,900
Goodwill	6,361
	174,419
Less liabilities assumed	
Current liabilities (excluding bank indebtedness of $11,923)	94,034
Long-term debt assumed	11,753
Non-controlling interest	14,036
	119,823
Net consideration payable	
(includes net bank indebtedness from ERF Holdings of $10,598)	54,596
Net consideration payable comprises	
Common shares to be issued (represents 328,757 common shares) [note 13]	11,754
Cash paid or payable (amount payable - $19,001)	30,410
Loan notes payable	1,834
Consideration payable by the Company	43,998
Net bank indebtedness from ERF Holdings	10,598
Total	54,596

WESTERN STAR TRUCKS HOLDINGS LTD.

4. ERF Holdings Acquisition (cont'd)

Had the Company received tenders for all of the ordinary and preference shares issued as at June 30, 1996, the acquisition equation would have been as follows:

(in thousands of dollars)	
Assets acquired	
Current assets (excluding cash of $1,325)	111,793
Capital assets	41,556
Investments	3,809
Prepaid pension expense	10,900
Goodwill	8,494
	176,552
Less liabilities assumed	
Current liabilities (excluding bank indebtedness of $11,923)	94,034
Long-term debt assumed	11,753
Non-controlling interest	–
	105,787
Net consideration payable	
(includes net bank indebtedness from ERF Holdings of $10,598)	70,765

As at June 30, 1996, directors and employees of ERF Holdings had options to acquire up to 489,015 ordinary shares at prices ranging from £1.15 to £2.77 per share exercisable at various dates over the period to April 1, 2001. Pursuant to the terms of the take-over bid stock options will be cancelled or purchased on the same terms as the currently issued shares of ERF Holdings.

The allocation of the purchase price has not been finalized as the Company has not received final actuarial valuations of the pension plans of the acquired company.

5. LSVW Contract

On March 2, 1992, Western Star Trucks Inc. – Camions Western Star Inc. ("WSTI") contracted with the Government of Canada to manufacture light support vehicle wheeled system trucks ("LSVW"). Under the terms of the agreement, 2,815 trucks were manufactured and delivered by June 30, 1996.

Contract costs incurred, except for component costs which are inventoried and charged to the Deferred LSVW account when used, are charged directly to the Deferred LSVW account until recognized as cost of sales under the percentage of completion method of accounting. Similarly, amounts invoiced or received are credited to the Deferred LSVW account until recognized as sales under the percentage of completion method of accounting.

The LSVW Contract is costed on a fully absorbed basis. Accordingly, all general and administrative expenses and other ancillary costs and income are charged or credited, as appropriate, to the Deferred LSVW account.

6. Inventories

(in thousands of dollars)	**1996**	1995
Completed trucks and buses	**27,541**	5,022
Work in process	**28,456**	7,571
Parts and components	**101,542**	53,926
	157,539	66,519

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 1996 and 1995

7. Capital Assets

(in thousands of dollars)	Cost	Accumulated depreciation	Netbook value
June 30, 1996			
Land	9,767	–	9,767
Buildings and leasehold improvements	37,691	1,546	36,145
Machinery, equipment, and other assets	66,923	10,069	56,854
Total	114,381	11,615	102,766
June 30, 1995			
Land	3,384	–	3,384
Buildings and leasehold improvements	21,120	830	20,290
Machinery, equipment, and other assets	25,712	5,935	19,777
Total	50,216	6,765	43,451

Included in buildings and leasehold improvements are assets under capital lease as described in note 10.

8. Deferred Costs

(in thousands of dollars)	1996	1995
Deferred product development	23,175	9,199
Deferred contract costs	2,151	1,514
Deferred start-up costs	6,058	–
Dealer network, trademarks, rights and entitlements [net of accumulated amortization of $1,807; 1995 - $1,444]	5,358	5,707
	36,742	16,420

WESTERN STAR
TRUCKS HOLDINGS LTD.

In the 1995 financial statements there were $5.6 million of capital assets included in deferred product development costs. The presentation of the 1995 numbers has been amended to reflect a reclassification from deferred product development costs to capital assets. This change has also been applied to notes 7 and 17. No amortization has been taken on these amounts as commercial production relating to these assets has not yet commenced.

9. Bank Indebtedness

Western Star has operating loan facilities totalling $49.7 million available. As at June 30, 1996, $6.9 million Canadian, $10.0 million US and £5.6 million were outstanding under these facilities.

The Canadian and US operating loan facilities may be drawn upon at will and are limited to specified percentages of accounts receivable and inventory. These facilities are collateralized by general security agreements, general assignments of book debts, a mortgage, the shares of WSTI, various intercompany guarantees and collateral arrangements, Bank Act security over inventory, and security interest in tangible and intangible current and non-current assets of a subsidiary company. The sterling facility is collaterized by a debenture which constitutes a fixed charge on United Kingdom properties and debt and a floating charge on the remaining United Kingdom assets of ERF Holdings. During the year, these facilities bore interest at rates ranging from 4.8% to 9.5%.

The operating loan facilities are subject to certain financial covenants. As at June 30, 1996 Western Star is in compliance with all such covenants.

WESTERN STAR
TRUCKS HOLDINGS LTD.

10. Loans and Advances and Capital Lease Obligations

(in thousands of dollars)	1996	1995
Committed Credit Facility	**49,692**	–
Parent Company Advances	–	5,355
Term Loans	**12,905**	5,188
Factoring Facility	**13,536**	–
Newcourt Credit Facilities	**8,486**	4,303
Capital Lease Obligations	**10,754**	5,937
Other	**9,714**	4,426
	105,087	25,209
Current portion	**82,324**	10,893
	22,763	14,316

The loans and advances (excluding capital lease obligations) - mature as follows:

(in thousands of dollars)	
Due by June 30, 1997	78,593
June 30, 1998	11,052
June 30, 1999	2,498
June 30, 2000	750
June 30, 2001	750
Thereafter	690
	94,333

The total amount of interest expensed on long-term debt during the year was $571,000 [1995 - $888,000; 1994 -$755,000].

Committed Credit Facility

Western Star has a $50.0 million Committed Credit Facility which is collateralized by a demand debenture/general security agreement, the shares of subsidiary companies (including the shares of ERF Holdings), and various intercompany guarantees. Of the principal amount outstanding under the facility, $30 million is repayable August 31, 1996 (which was repaid on August 29, 1996) and $1.8 million is payable monthly thereafter commencing September 30, 1996. The facility is subject to certain financial covenants and as at June 30, 1996 Western Star is in compliance with all such covenants.

Parent Company Advances

The Parent Company Advances were made to finance a related party acquisition in 1993. The advances were repaid on July 1, 1995.

Term Loans

The term loans are comprised of two loans. The first is a $4.5 million principal reducing loan which matures May 25, 2002 and incurred interest during the year at an average rate of 5.7%. The loan is collateralized by the same items as the Canadian and US dollar operating facilities described in note 9 (excluding security interest in tangible and intangible current and non-current assets of a subsidiary company) and is subject to the same financial covenants.

The second term loan is a $8.5 million (£4.0 million) loan which is collateralized by the same debenture as described in note 9. It bears interest at LIBOR plus 1.5% and matures in January 1998.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 1996 and 1995

10. Loans and Advances and Capital Lease Obligations (cont'd)

Factoring Facility

The Factoring Facility represents advances by a factoring company in respect of assigned invoices for vehicle sales to certain distributors in Europe. There is no maturity date for this facility as it revolves on a regular basis. In the event of an unrecovered loss arising from the non-payment of any of these debts, Western Star bears only 50% of such losses. There have been no such losses to date.

Newcourt Credit Facilities

WSTI has two Canadian dollar credit facilities available for financing trucks sold to Western Star Trucks Australia Pty. Ltd. ("WS Australia"). The first facility is for $4 million and bears interest at 12.04% per annum. The second a revolving facility for $4.5 million and bears interest at bank prime plus 1%. These facilities are to provide specific charge financing for inventory in transit.

Capital Lease Obligations

Future minimum annual lease payments are due as follows:

WESTERN STAR TRUCKS HOLDINGS LTD.

Schedule of payments

(in thousands of dollars)		
Due by	June 30, 1997	4,267
	June 30, 1998	3,107
	June 30, 1999	1,499
	June 30, 2000	961
	June 30, 2001	818
	Thereafter	2,755
Total minimum lease payments		13,407
Less:	Amount representing interest at 8.5%	(2,653)
	Current portion	(3,730)
Balance of obligation		7,024

11. Commitments and Contingencies

[a] Western Star is subject to various legal proceedings and claims which arise in the ordinary course of business. Management believes that adequate provision has been made in the financial statements for outstanding claims. Settlement of unaccrued claims, if any, will be accounted for in the year in which they are recognized.

[b] Under agreements with financing institutions, Western Star is contingently liable in respect of secured financing contracts on certain trucks purchased by dealers and retail customers. Anticipated losses are provided for in the financial statements.

[c] As at June 30, 1996, the aggregate minimum rental commitments under long-term operating leases are as follows:

(in thousands of dollars)	
1997	2,782
1998	2,073
1999	1,737
2000	1,687
2001	769
	9,048

[d] Effective July 9, 1992, WSTI signed the LSVW Master Security Agreement under which it granted the Canadian Government a $20 million debenture charging its Kelowna property, a general security agreement charging certain personal property, and a hypothecation of the monies in the cash collateral accounts. The LSVW contract was completed during fiscal 1996 and the security will be released in due course.

12. Non-Controlling Interest

(in thousands of dollars)	1996	1995
Common shareholders of ERF Holdings	**13,334**	–
Preference shareholders of ERF Holdings	**702**	–
Preferred shareholders of Orion	**15,000**	15,000
	29,036	15,000

The ERF Holdings preference shares are cumulative and have a par value of £1 each.

The Orion non-controlling interest is comprised of 1,500,000 no par value redeemable, retractable, non-voting Preferred Shares of Orion ("Orion Preferred Shares"). These shares may be redeemed by Orion or purchased by the Company at any time at their fair market value. Each Orion Preferred Share is entitled to a preferential, cumulative cash dividend equal to 55% of the Bank of Montreal's average commercial loan rate multiplied by the face value. The dividends are calculated, compounded and payable on a quarterly basis. During the year, $662,000 of dividends were paid on the Orion Preferred Shares.

The Orion Preferred Shareholder also holds a warrant to acquire 700,000 Orion Common Shares at $10 per share, representing 25% of Orion's issued and outstanding Common Shares ("Orion Common Shares"). The warrant is exercisable until the later of June 7, 2000 or the date that the Orion Preferred Shares have been redeemed or purchased.

The Orion Preferred Shareholder may require Orion to redeem any Orion Preferred Shares and repurchase any Orion Common Shares held by it at the fair market value on or after June 7, 2000, which cannot be less than a specified net asset value, and may do so in any event on or after June 7, 2002.

WESTERN STAR TRUCKS HOLDINGS LTD.

13. Share Capital

Authorized

25,000,000 Common Shares, without par value

5,000,000 Preferred Shares issuable in series without par value

	1996		1995		1994	
(in thousands of dollars)	#	$	#	$	#	$
Issued and outstanding						
Opening balance, July 1	**11,177,378**	**32,166**	11,131,046	31,633	100,000	100
Stock subdivision 77.31252-for-1	–	–	–	–	7,631,252	–
Shares issued for cash	–	–	–	–	2,600,696	29,908
Shares issued for cash pursuant to exercise of stock options	**242,760**	**2,840**	46,332	533	–	–
Shares issued for cash under the employee share purchase plan	**10,479**	**321**	–	–	–	–
Shares issued upon conversion of special warrants	**750,000**	**14,572**	–	–	–	–
Shares issued in exchange for non-controlling interest in subsidiary	–	–	–	–	799,098	1,625
	12,180,617	**49,899**	11,177,378	32,166	11,131,046	31,633
Shares to be exchanged for ERF Holdings' shares	**328,757**	**11,754**	–	–	–	–
Closing balance, June 30	**12,509,374**	**61,653**	11,177,378	32,166	11,131,046	31,633

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 1996 and 1995

13. Share Capital (cont'd)

The Preferred Shares are issuable in series and will have special rights and restrictions as determined prior to their issuance by the Directors of the Company.

For statutory purposes, the Company's legal issued share capital as at June 30, 1996 is $69.2 million.

As at June 30, 1996, the Company had 488,408 share purchase options outstanding at exercise prices ranging from $11.50 to $33.95 per Common Share, expiring June 6, 2004 to May 16, 2006.

14. Income Taxes

Income tax expense is comprised as follows:

(in thousands of dollars)	**1996**	1995	1994
Current	**7,366**	15,616	9,988
Deferred	**6,902**	3,919	738
Benefit of loss carryforward	**(341)**	(6,204)	(6,140)
	13,927	13,331	4,586

The following table reconciles the reported income tax expense to the income tax provision which would have been obtained by applying the combined basic Canadian federal and provincial income tax rate of 45% [1995 - 45%; 1994 - 45%] to accounting income.

(in thousands of dollars)	**1996**	1995	1994
Provision for income taxes based on combined basic			
Canadian federal and provincial income tax rate	**22,703**	24,651	11,570
Increase (decrease) in taxes resulting from			
Manufacturing and processing profits deduction	**(1,497)**	(1,865)	(869)
Foreign exchange on translation of subsidiaries	**(138)**	299	420
Non-controlling interest	**298**	–	710
Benefit of loss carryforward recognized in the year	**(341)**	(6,204)	(6,140)
Benefit of loss carryforward applied to reduce deferred income tax credits	**–**	(1,706)	–
Orion share purchase incentive	**(5,731)**	(1,749)	–
Foreign tax rate differentials	**(1,283)**	(2,561)	(1,103)
Other	**(84)**	2,466	(2)
	13,927	13,331	4,586

Western Star has incurred non-capital losses of $13,027,000 which can be carried forward to reduce taxable income of the applicable entity in future years. This amount comprises losses expiring in the fiscal years ending June 30:

(in thousands of dollars)	
1999	566
2000	3,442
2001	283
2003	8,736
	13,027

Western Star has recognized the benefit of the above non-capital losses through the reduction of deferred income tax credits.

WESTERN STAR
TRUCKS HOLDINGS LTD.

15. Segmented Information

Western Star operates in four significant geographic segments in the design, assembly, and distribution of transportation equipment and parts. Inter-segment sales and purchases are made at market prices and trade terms. Operations and identifiable assets by geographic segment are presented below:

(in thousands of dollars)	Canada	United States	Australia	Europe	Eliminations	Consolidated
1996						
Revenue from customers outside the enterprise	302,387	417,398	63,534	–	–	783,319
Inter-segment	279,450	41,949	–	–	(321,399)	–
	581,837	459,347	63,534	–	(321,399)	783,319
Segment operating profit	21,186	7,955	9,307	–	12,664	51,112
Non-controlling interest	662	–	–	–	–	662
Income tax expense	7,316	3,262	3,349	–	–	13,927
Net income	13,208	4,693	5,958	–	12,664	36,523
Identifiable assets	408,963	92,239	28,921	159,256	(155,151)	534,228
1995						
Revenue from customers outside the enterprise	386,439	250,495	96,322	–	–	733,256
Inter-segment	238,797	–	71	–	(238,868)	–
	625,236	250,495	96,393	–	(238,868)	733,256
Segment operating profit	29,345	9,523	16,258	–	–	55,126
Income tax expense	3,862	4,099	5,370	–	–	13,331
Net income	25,483	5,424	10,888	–	–	41,795
Identifiable assets	211,469	52,930	23,761	–	(40,642)	247,518
1994						
Revenue from customers outside the enterprise	217,593	158,636	50,745	–	–	426,974
Inter-segment	171,991	–	838	–	(172,829)	–
	389,584	158,636	51,583	–	(172,829)	426,974
Segment operating profit	15,124	6,909	4,891	–	362	27,286
Non-controlling interest	–	–	–	–	1,578	1,578
Income tax expense	587	2,209	1,790	–	–	4,586
Net income	14,537	4,700	3,101	–	(1,216)	21,122
Identifiable assets	117,342	16,401	30,567	–	(4,424)	159,886

16. Pension Plans

[a] WSTI has a defined benefit pension plan for its salaried employees. The most recent actuarial valuation of the plan was completed as at January 1, 1993. The actuarial pension plan assets and extrapolated liabilities are approximately $11.4 million [1995 - $10.1 million] and $11.1 million [1995 - $9.6 million], respectively, as at June 30, 1996.

[b] WSTI has a defined contribution plan and group RRSP plan for its hourly employees, and is in the process of winding up a defined benefit plan for its Ontario hourly employees. No further service benefits are being earned in that plan, which has assets and liabilities of approximately $820,000 and $252,000, respectively.

[c] Orion has a defined contribution plan for the employees of the Canadian company and a 401(K) plan for the employees of the US company. Employees contribute 2.5% of their gross wages and Orion contributes 1% of the employees' gross wages.

[d] ERF Holdings has two defined benefit pension plans for its employees. The most recent actuarial valuation of the plans was completed as at June 1994. The actuarial pension plans' assets and extrapolated liabilities are approximately $85.2 million and $74.3 million, respectively, as at June 30, 1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 1996 and 1995

17. Differences Between Canadian and United States Generally Accepted Accounting Principles

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian basis"), which conform, in all material respects, with accounting principles generally accepted in the United States ("US basis") except as explained below.

If Western Star had followed the US basis, the effect on consolidated net income would be:

(in thousands of dollars)	1996	1995	1994
Net income, Canadian basis	**36,523**	41,795	21,122
Adjustment for deferred costs [a]	**(20,001)**	(3,835)	(2,021)
Amortization of dealer network [b]	**(504)**	(504)	–
Deferred tax expense [a]	**6,828**	1,457	–
Net income, US basis	**22,846**	38,913	19,101
Net income per share, US basis	**1.93**	3.50	2.36

Consolidated balance sheet items under the US basis would be:

(in thousands of dollars)	1996	1995
Assets		
Deferred costs [a][b]	**14,177**	14,282
Deferred income taxes [a]	**1,511**	–
Liabilities		
Deferred income taxes [a]	–	337
Shareholders' equity		
Share capital [b][c]	**66,786**	37,259
Retained earnings [a][b][c]	**65,831**	47,811

WESTERN STAR TRUCKS HOLDINGS LTD.

[a] Western Star capitalizes all costs associated with product development that in its view is technically feasible and has a clearly defined future market. It also capitalizes costs associated with the pre-operating and start-up of new manufacturing facilities. Under the US basis, these costs are expensed as incurred, unless the costs are related to assets that have an alternative future use. Under the US basis, there is no deferred tax liability and, therefore, the related deferred tax liability recorded under the Canadian basis is reversed.

[b] In connection with the Company's initial public offering, it completed a non-monetary, non-reciprocal reorganization of the Employee Share Ownership Plan ("ESOP") which was accounted for at the net book value of the ESOP's value in WSTI. The US basis requires this transaction to be accounted for at fair value. This results in an increase in the dealer network, trademark, rights and entitlements, which will be amortized over the remaining term of the balance.

[c] Share issue costs are deducted from the proceeds of issue on the U.S. basis. On a Canadian basis, they have been charged to retained earnings.

Under the US basis, activities of an enterprise that do not result in cash receipts or cash payments, are reported in the notes to the financial statements and not in the statement of cash flows. Consequently, under the US basis, the issuance of common shares and the decrease in non-controlling interest reported in the statement of cash flows in 1995 would have been reduced by $1.6 million, representing the common shares issued to the ESOP. In 1996, common shares issued would be decreased by $11.8 million representing the shares to be issued in exchange for shares of ERF Holdings. In addition, the increase in bank indebtedness would be classified as a financing activity under US GAAP, making the total cash provided by financing activities $107.9 million and cash $56.9 million.

18. Net Income Per Share

The net income and cash flow from operations per share are based on the weighted average number of Common Shares outstanding after giving effect to the stock subdivision as if it had taken place July 1, 1993.

19. Subsequent Events

As a result of the growth in Western Star's operations over the past four years, including its acquisition of Orion and ERF Holdings, it has sought increased term and revolving credit facilities to service its operating requirements. Western Star has received a commitment subject only to completion of documentation from a Canadian chartered bank to provide the following credit facilities (the "New Credit Facilities"):

(1) $40 million operating facility due August 31, 1997; and

(2) $40 million term loan, the terms of which require Western Star to make payments commencing October 30, 1996 of $2 million per month, with the outstanding principal balance and any accrued interest to be paid in full on August 31, 1997. In addition, prepayment of $20 million is due on April 30, 1997 in certain circumstances.

Western Star intends to use the proceeds of the New Credit Facilities to repay existing indebtedness to WSTI's operating bank and to repay ERF Holdings' operating bank.

On September 20, 1996 the Company completed for filing a prospectus for the issuance of 1,000,000 common shares at $40.65 per share for aggregate proceeds of $40.65 million less underwriting fees of $1.626 million and estimated issue expenses of $0.2 million. The proceeds of the offering will be added to Western Star's working capital and will be used for general corporate purposes, including routine capital expenditures.

20. Comparative Figures

Certain of Western Star's comparative figures have been reclassified to conform to the presentation adopted in the current year.

WESTERN STAR
TRUCKS HOLDINGS LTD.

BOARD OF DIRECTORS

Directors

Terrence E. Peabody
Chairman and Chief Executive Officer of the Company *(1)*

Bradley D. Stam
President of the Company

Kelly J. Kennedy
Executive Vice President, Chief Operating Officer of Orion Bus Industries Ltd.

Stewart G. Smith
Executive Vice President, Assistant to the Chairman

E. Peter Foden
Chairman and Chief Executive Officer, ERF (Holdings) plc

D. Ross Fitzpatrick (1)(2)
President and Chief Executive Officer, Viceroy Resource Corporation (mining company)

Stuart A. Lang
Vice-Chairman of the Board, Crestbrook Forest Industries Ltd.

William W. Stinson
Director, Canadian Pacific Limited

Allan G. Thompson (1)(2)
President, AGT Financial Corporation (investment company)

(1) Member of the Compensation Committee of the Board of Directors.
(2) Member of the Audit Committee of the Board of Directors.

As at June 30, 1996

Board of Directors

The Board of Directors is responsible for ensuring that the business and affairs of the corporation are managed properly to protect and enhance shareholder value. In discharging its responsibility of stewardship the Board oversees and approves: strategic direction and policies; annual business plans; selection of senior management; full and timely disclosure of financial and other material information; and compliance with all applicable laws and regulations.

The Board comprises nine directors, four of whom are considered to be unrelated. Five directors are officers of the company.

The Board of Directors discharges its responsibilities directly and through its committees. At regularly scheduled meetings, members receive and discuss reports on the operating companies and review the overall financial position of the corporation. Strategic, financial and succession plans are approved. Additional meetings are held as required.

BACK (L-R) PETER FODEN, STUART LANG, WILLIAM STINSON, ROSS FITZPATRICK, ALAN THOMPSON. FRONT (L-R) STEWART SMITH, TERRY PEABODY, BRAD STAM, KELLY KENNEDY.

CORPORATE INFORMATION

Executive Officers

Terrence E. Peabody
Chairman of the Board,
Chief Executive Officer

Bradley D. Stam
President

Robert A. Enright
Executive Vice President,
Chief Operating Officer of Western Star Trucks Inc.

G. A. (Drew) Fitch
Executive Vice President,
Chief Financial Officer

Kelly J. Kennedy
Executive Vice President,
Chief Operating Officer of Orion Bus Industries Ltd.

Stewart G. Smith
Executive Vice President,
Assistant to the Chairman

Glen H. Ashdown
Vice President, Engineering

Edward A. Bank
Vice President, Materials

James F. Gilchrist
Vice President, Corporate Controller and Secretary

Mike J. Harvey
Vice President, International Sales

Thomas R. McEvoy
Vice President, U.S. Truck Sales

John A. Nelligan
Vice President, North American Truck Sales and Marketing

Grant Stephen
Vice President, Manufacturing

Howard L. Wilson
Vice President, Parts, Sales and Marketing

Corporate Office, Engineering & Manufacturing Centre

2076 Enterprise Way
Kelowna, B.C., Canada V1Y 6H8
Telephone: (250) 860-3319
Fax: (250) 860-1252

Registered Office

Suite 1700, Park Place
666 Burrard Street
Vancouver, B.C., Canada V6C 2X8

Parts Distribution Centres

Toronto, Ontario, Canada
Edmonton, Alberta, Canada
Memphis, Tennessee, U.S.A.
Reno, Nevada, U.S.A.
Brisbane, Australia

Orion Bus Industries Ltd.

5395 Maingate Drive
Mississauga, Ontario, Canada
L4W 1G6
Telephone: (905) 625-9510
Fax: (905) 625-3784

E.R.F. (Holdings) plc

Sun Works, Sandbach
Cheshire, U.K. CW11 9DN
Telephone: (0270) 763223
Fax: (0270) 766068

Auditors

Ernst & Young
Vancouver, B.C., Canada

Shares Listed

The Toronto Stock Exchange
The Montreal Stock Exchange
The Vancouver Stock Exchange
Trading Symbol – WS

The American Stock Exchange
Trading Symbol – WSH

Annual General Meeting

Western Star's 1996 Annual General Meeting will be held November 29, 1996 at 10:00 a.m. in the Canadian Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.

WRITTEN, DESIGNED AND PRODUCED BY PARALLEL STRATEGIES INC., VANCOUVER

Western Star Trucks Holdings Ltd.
2076 Enterprise Way
Kelowna, B.C. V1Y 6H8
Canada